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THE MONTANA SCHOOL FOUNDATION PROGRAM AND STATE EQUALIZATION AID: A LEGISLATIVE AND FINANCIAL HISTORY, 1949--1991

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THE MONTANA SCHOOL FOUNDATION PROGRAM AND STATE EQUALIZATION AID: A LEGISLATIVE AND FINANCIAL HISTORY, 1949-1991

Prepared for the Joint Interim Subcommittee
on School Funding

By Andrea Merrill, Staff Researcher
Montana Legislative Council

April 1992

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Introduction

For over 40 years, the foundation for funding Montana's public elementary school and high school districts has been constructed from the following building blocks: the minimum state funding guarantee embodied in the foundation program schedules (FP schedules); the state equalization account (SEA) and its dedicated revenue sources; the countywide equalization levies; the average number belonging (ANB) student count for each district or school within a district; and the general fund budget (GF budget) of each school district. This report highlights the evolution of these building blocks, as influenced by periodical assessments of student and taxpayer equity, prevailing economic conditions, and the changing expectations for public schools.

General sources for this 42-year overview of legislative actions, state finances, and other data relevant to school funding include the following: Laws of Montana and other publications documenting the actions of each legislative session, selected annual reports and publications of the Office of Public Instruction (OPI), appropriation and budget reports of the Office of the Legislative Fiscal Analyst (LFA) and the Governor's Office of Budget and Program Planning, and a number of private dissertations and publications encompassing periods of school funding history in Montana.[1]

Enactment of the Foundation Program Act of 1949

The genesis of Montana's current public school funding structure is traceable to a 1945 legislative resolution that requested appointment of a nine-member committee to study general education reform in the state.[2] The committee was to examine reorganization of the school districts and restructuring of public school funding in order to stem what was termed at the time a "crisis situation" in the quality of Montana schools. The previous decade's legacy of general economic hardship, drought and its consequences

for the agricultural sector, and years of war effort had resulted in meager commitments to the public schools on the part of both society and government. By 1945, the expectations of peace and prosperity were allowing Montana and other states to dream of reversing this trend.

The recommendations of the Montana Committee on Public Elementary and Secondary School Organization and Finance (1946 School Committee) were the first written expression of the basic principles of school financing that were later incorporated into the Foundation Program Act of 1949 (1949 Act) and that are still, for the most part, intact today.[3] An extensive study of the taxation and revenue sources available to school districts led the 1946 School Committee to the conclusion that a large part of state aid was distributed inequitably and that many districts were forced to rely on "exorbitant and confiscatory levies" in an attempt to provide a satisfactory education program. The largely rural school districts in Montana were almost entirely dependent on district levies and limited countywide levies. Even the countywide levies compounded the inequities because they were distributed to the various school districts on the basis of school district population between 6 and 21 years of age, an allotment not wholly related to actual educational or financial needs. This census count was also used to apportion 95 percent of the interest and income from school lands, as provided by the 1889 Montana Constitution.* State equalization aid, in the form of classroom units, furnished merely 20 percent of the total amount required for the districts' GF budgets.

The 1946 School Committee also endorsed a comprehensive plan for consolidation of Montana's 1,710 school districts as basic to overall improvement of the education system.** The plan promoted broad-

---

* The census count for allocation of interest and income from school lands was used until its repeal by the 1973 Legislature. Another problematic feature of this policy was that a school district could receive the census-based allocation for any children who attended a nonpublic school within the district boundaries.

** In 1946, there were 209 operating high school districts, 1,047 operating elementary districts, and 454 nonoperating districts.

based community involvement in the reorganization of area school districts. Each reorganized district was to be centered around at least one high school of "such size as to ensure the taxable valuation and attendance sufficient to make it an economical unit for all school purposes".[4]

The bill incorporating the 1946 School Committee's sweeping recommendations failed to win approval in the 1947 Legislative Session.[5] However, several singular concepts from the study were successfully signed into law, including:

- replacing the 10-year-old policy of apportioning state equalization aid on a "classroom unit" basis with the concept of an ANB student count;* and
- increasing the grazing fees on state school lands to enhance this public education revenue source.

Following adjournment of the 1947 Session, a "grassroots" committee of legislators, educators, parents, and other interested persons conducted an informational program on education and taxation reform throughout the state. A potent source of support came from taxpayers who saw wisdom in revamping school funding so that the property tax base would not carry the brunt of projected inflation rates and school population growth. The efforts of this committee were rewarded by the passage of the 1949 Act.[6] The proposed reorganization of each county's school districts was deleted from the final version of substitute Senate Bill No. 161.**

---

* As part of what appears to be Montana's first comprehensive "school equalization" legislation (Chapter 175, Laws of 1935), the "classroom unit" had been instituted as the method for distributing state equalization aid. The amount per elementary classroom unit was $500 per school year plus 12 cents per pupil per day, while the junior high and high school rate was $600 per school year plus 15 cents per pupil per day. There was no increase in these amounts prior to replacement in Chapter 272, Laws of 1947.

** It would be nearly 30 years before school district reorganization was again discussed and rejected by the 1987 Legislature, in the form of Senate Bill No. 322.

Elements of the Foundation Program Act of 1949

The purpose section of the 1949 Act declared the establishment of "a uniform system of free, public schools, sufficient for the education of all children in the state". The principal provision of the new law anticipated that all taxpayers would be taxed the same millage to support a "minimum foundation program" for each district. If this millage did not bring in the amount required, then the state would pay the balance needed. The minimum foundation program was defined as "the amount required to operate and maintain an adequate and efficient school". To receive the equalized funding, a district had to provide a minimum of 180 days for pupil attendance.

The minimum foundation program amount guaranteed to each district was to be derived from funding "schedules" that related to district size according to its ANB count (student count). The initial FP schedule amounts were derived from studies in the mid-1940s on average district general fund expenditures per pupil in the various-sized school districts.[7]

As a compromise to concerns about overextending the state's finances, the 1949 Act limited the commitment of state revenue sources (interest and income from school lands, individual income taxes, corporation license taxes, etc.) to one-half the statewide cost of the FP schedule guarantee. As an additional cushion for state revenue shortfalls, a "district levy for state deficiency" was included as a funding tier. Also, if all the district and county levies did not totally supply at least the "local" one-half of the FP schedule amount guaranteed to the districts of a county, the difference had to be augmented by a final source of revenue--the district levy for remaining local obligation. The high school districts were not dependent on the initial district 5-mill levy prescribed for the elementary districts, nor did they receive interest and income money.

Beyond the minimum educational program to be financed by equalized

funding through the FP schedules, a district board of trustees could augment this basic amount through a nonvoted "permissive" levy. In the 1949 Act, this amount was not to exceed 20 percent of an elementary district's allowable FP schedule amount or 15 percent of a high school district's allowable FP schedule amount. Figure 1 illustrates the basic structure of the 1949 Act and the permissive area changes made by the 1951 Legislature. The trustees of a district could extend district spending even further through a levy that required approval by the taxpaying voters of the district.[8]

The FP schedules were designed to finance the maintenance and operation of the educational program of a school district through the district GF budget and the only other authorized district funds were a debt service fund and a transportation fund. Chapter 200, Laws of 1949, had instituted separate bus transportation schedules and individual transportation reimbursement schedules to distribute the long-established state assistance for transportation of pupils who lived more than 3 miles from a school of the district or from the incorporated limits of a city or town.

Thirty-Second Legislature (1951)

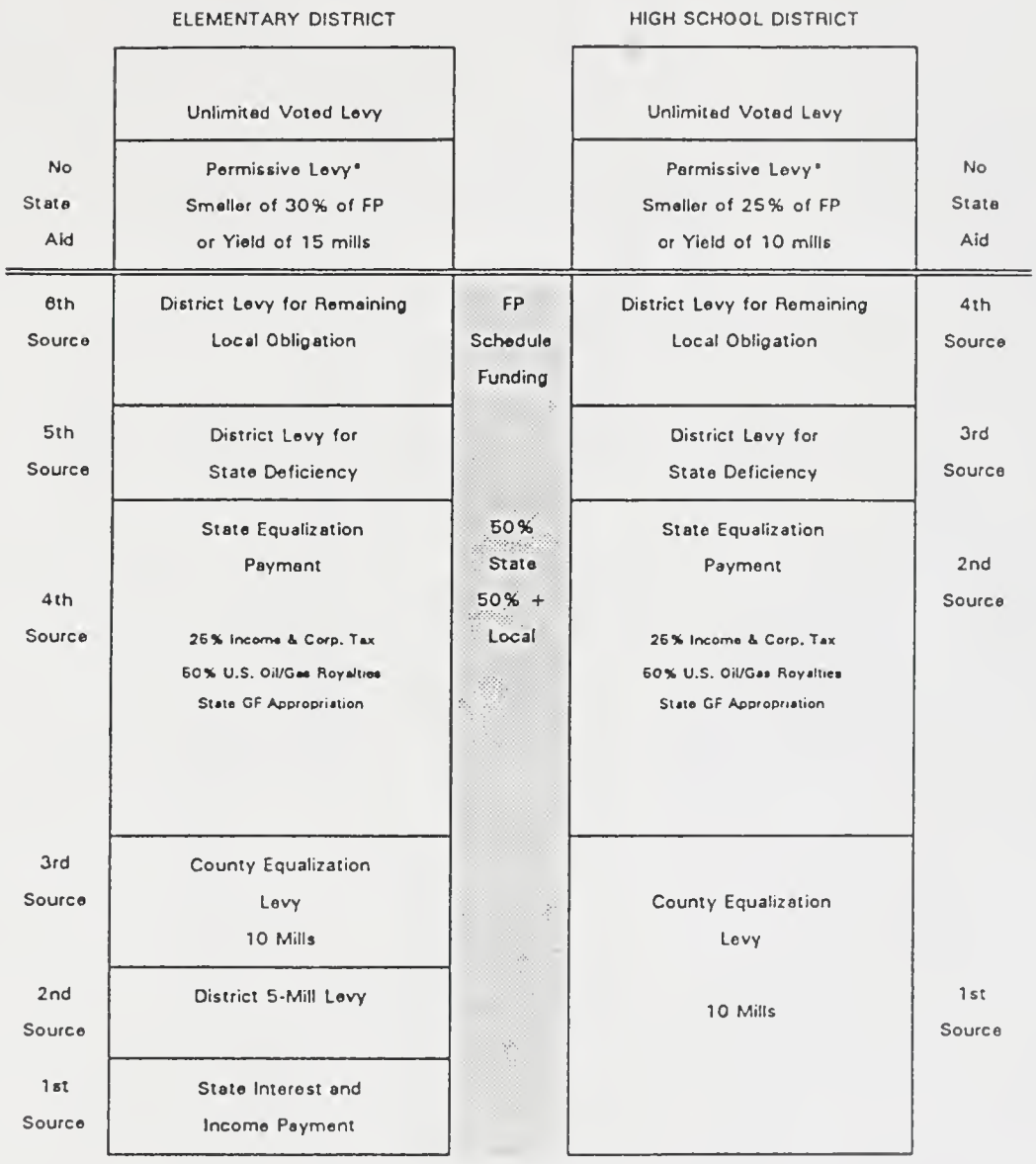
Opponents to the 1949 revision of the school funding system feared that the plan would require more state revenue than existing state tax rates and tax bases could produce. The 50 percent limitation on the state's share of the new FP schedules through the SEA was a compromise provision that had allowed final passage of the 1949 Act. Revenue deposited in the SEA did fall short of expectations by 10 percent for the 1950-51 biennium, and the district levies for state deficiency had been activated to cover the shortage. This action, coupled with no legislative increase in the FP schedules, weakened the intentions of the 1949 Legislature by triggering increased use of district property tax sources. In

another diminishment of the original plan, the elementary district permissive amount was increased from 20 percent to 30 percent or to the amount a 15-mill levy could raise, whichever was smaller. The permissive amount for high schools with 100 ANB or less was increased from 15 percent to 30 percent, while the allowable permissive amount for a high school district with more than 100 ANB was limited to a 25 percent increase or to the amount that a 10-mill levy could raise.[9] Increasing the permissive amount did not foster equalized funding in that property-poor districts were confined by the value of the local mill, while property-rich districts could expand the GF budget by nearly one-third more than granted by the FP schedules without voter approval and with less tax effort.

FIGURE 1

MONTANA PUBLIC SCHOOL

GENERAL FUND STRUCTURE IN FY 1951



* As noted on the previous page, the only change to the 1949 Act was to increase the elementary district permissive amount from 20 percent to 30 percent or to the amount a 15-mill levy could raise, whichever was smaller. The permissive amount for high schools with 100 ANB or less was increased from 15 percent to 30 percent, while the allowable permissive amount for a high school district with more than 100 ANB was limited to a 25 percent increase or to the amount that a 10-mill levy could raise.

Thirty-Third Legislature (1953)

The Williston Basin oil boom had fattened the school lands interest and income fund and increased the total taxable valuation of the state by over 7 percent. The Legislature increased the FP schedules by approximately 10 percent in response to various pressures, including the oil-boom economy, taxpayer disenchantment with the enlarged permissive levy amount, the national inflation rate, and the influx of "war babies" on the school system. In an attempt to curtail district GF budget growth, legislation limited the newly expanded permissive amount to a calculation based on only 93 percent of each district's FY 1953 FP schedule amount.[10]

During the ensuing 1954-55 biennium, the anticipated continuance of the oil-boom economy did not materialize, and a $2.8 million carryover in SEA funds from the previous biennium salvaged the promise to fully fund the state share for FY 1954. However, for FY 1955, the state was short by $1.1 million and, because the shortage was recognized too late to run the two district-level "deficiency" levies, the districts had to make up the difference by borrowing and relying on district taxation in subsequent years.

Thirty-Fourth Legislature (1955)

Since the 1952-53 school year, the war baby population had caused school enrollments to rise by 5 percent a year. The education community stressed that this trend would join with the inflation rate to drive the costs of education up at an even faster rate. However, interest and income revenue from school lands had dropped to half of the last biennium's collection, and statewide taxable valuation was stagnant. This difficult economic situation resulted in small increases for elementary schedules and no appreciable increases in SEA revenue. The district deficiency levies were activated in the ensuing biennium, and the voted levies for FY 1957 jumped sharply. See Appendix C. The brief attempt at limiting the calculation of the district permissive levy to only 93 percent of the district's FP schedule amount was repealed.[11]

Thirty-Fifth Legislature (1957)

Pressure from taxpayer interests prompted this Legislature to expand SEA revenue with an increase in individual income taxes and corporation license taxes and with a significant general fund appropriation. Regardless of these revenue enhancements, the result was a continuation of previous experiences--hefty reliance on the district deficiency levies because the "baby boomer" enrollment and FP schedule increases were not backed by sufficient SEA revenue. A legislative resolution mandated that an appointed commission conduct an "entire, complete, and constructive study and review of the entire tax structure and education system to recommend improvements in equitable, uniform taxation and to modernize the education system".[12] During the 1957-58 interim, the Montana Taxation-Education Commission arranged for the George Peabody College for Teachers to perform a comprehensive study of selected public school problems. The report garnered attention and respect for its thorough approach and straightforward recommendations on the modernization of the educational structure, enhanced instructional offerings, better teacher preparation, and expanded financing of the state education system.[13]

Thirty-Sixth Legislature (1959)

While the 1958 Peabody study would eventually result in some major policy changes, the 1959 Legislature's first exposure to the following ideas from the study report did not generate specific policy changes:

- The FP schedule guarantee should be based on three tiers of equalized assistance: a teaching unit allotment, a flat amount of $100 per elementary pupil and $120 per high school pupil, and a transportation allotment.
- Elementary districts should be encouraged or mandated to unify with the encompassing high school district.
- The district budgeting process should be simplified by merging

programs under a general fund, a debt service fund, and a building fund. At the time, school districts were allowed budgeted funds for transportation, employee retirement contributions, federal revenue, and a school lunch program.

- As a prerequisite to school funding and taxpayer equity, uniform classification and assessment of property taxes should be implemented as soon as possible.
- Equalization could be enhanced and simplified by dividing funding for the FP schedule guarantee between a countywide levy and the SEA sources.

The previous biennium's FP schedule increases of approximately 10 percent had lowered the demand for permissive and voted levies during the biennium. Property taxpayers encouraged legislators to continue this trend. In order to more closely match the FP schedule increases of approximately 4 percent to available state funds, this Legislature again increased the individual income and corporation license taxes and added a generous general fund appropriation to the state equalization share.

Facts to Date: The foundation program portion of the state district GF budgets had dropped from 80 percent intended under the 1949 Act to less than 70 percent by FY 1961. The general fund cost per ANB was $388 for FY 1961. See Appendix C.

Thirty-Seventh Legislature (1961)

Despite the Governor's plea for "austerity", the 1961 Legislature found it hard to comply. The education community stressed the growing discontent with the inconsistent flow of state funding streams for the school districts. The Classroom Unit Assistance.plan, championed in the 1958 Peabody study, was enacted as an additional source that could be used as a substitute to reduce any district millage--except as a replacement for the 5 mills installed as a first-tier funding source for elementary districts. The

money could even be used to fund the amount above the permissive portion without triggering a vote of the district electors.[14] A classroom unit would be allocated for each teacher in a district, exclusive of principals, superintendents, or guidance personnel. Although the concept had support, the Legislature could not agree to divide more than $855,544 per fiscal year among the districts under the new plan. That debate triggered a call for a legislative study of the school finance system during the interim.[15]

An FP schedule increase of 3 percent per fiscal year was the smallest increase since 1951. As noted in Appendix B, this was the first year that the same percentage increase was applied evenly to all ANB amounts within the FP schedules. In order to liberate the SEA as a funding source for the state transportation obligation (one-third of the transportation reimbursement schedules), an appropriation from the state general fund was tapped as the new funding source.[16]

Thirty-Eighth Legislature (1963)

The school funding revenue picture for the 1962-63 biennium emerged as more bleak than anticipated. County equalization levy revenue fell below expectations because of reduced taxable valuation across the state. Also, for FY 1963, the State Board of Education reduced the SEA payments to all districts in order to balance so-called "overpayment" of interest and income payments to some districts, thus triggering high deficiency levies. See column 3, Appendix F. The result was a sharp rise in voted levies to 15.3 percent of the total GF budgets of districts. See Appendix C.

In the 1960-61 interim, a thorough cost-of-education study had been conducted by the School Foundation Program Study Committee (Study Committee), a group of 71 legislators, educators, and lay persons. This study related actual costs in 1949 to those required in 1962 for district essentials, such as teacher salaries. The total general fund expenditures of the districts doubled from 1949 to 1962, but comparisons with regional data

indicated that Montana districts could have been justified to spend 2.75 times as much in response to the real effects of the inflation rate, enrollment increases, and state and national educational program expectations. Public education was feeling the "frog in the demographic snake" as the first baby boomers moved through the high school systems. In addition to the high enrollment, there was an urgency to bolster the high school curriculum in response to the threat of Russian supremacy in the Cold War's science and technology race.

These pressures and others from the education and taxation interests encouraged the Legislature to accept the recommendations of the Study Committee. The recommendations were enacted as Chapter 267, Laws of 1963, and altered the school funding mechanism in the following manner:

- The elementary district 5-mill levy was discontinued as a first tier of funding, and the county equalization levies were increased to 25 mills for elementary schools and to 15 mills for high schools.

- The FP schedules were expanded to prescribe a "maximum-general-fund-budget-without-a-voted-levy" (MGFWV) amount, which was divided into a minimum foundation program guarantee of 75 percent (funded by the SEA sources and county equalization aid) and a 25 percent permissive amount that could be triggered by district trustee action.* The 75 percent level was derived from the Study Committee's analysis of the district costs of meeting the current accreditation standards, with the results indicating that at least 70 percent of average district general fund expenditures went toward mandated instructional costs, textbooks, and supplies. The MGFWV (now foundation program and permissive amount combined) schedules were revised to cover at least 75 percent of the costs

* Increasing the permissive portion to a 75:25 ratio had the effect of increasing the amount of nonvoted leeway beyond the FP schedule amount to 33 1/3 percent, rather than the 25 percent leeway that resulted from the previous 80:20 ratio.

within the average district GF budget for each ANB size category. These categories were also regrouped in this revision. OPI was required to calculate the median costs for each new category prior to each legislative session.

- The 1949 Act had made the district the taxing agency responsible for raising the amount needed for any deficiency in state sources (SEA and state interest and income payments). This district levy for state deficiency was repealed and replaced by a "county additional levy for state deficiency" to provide a broader tax base.

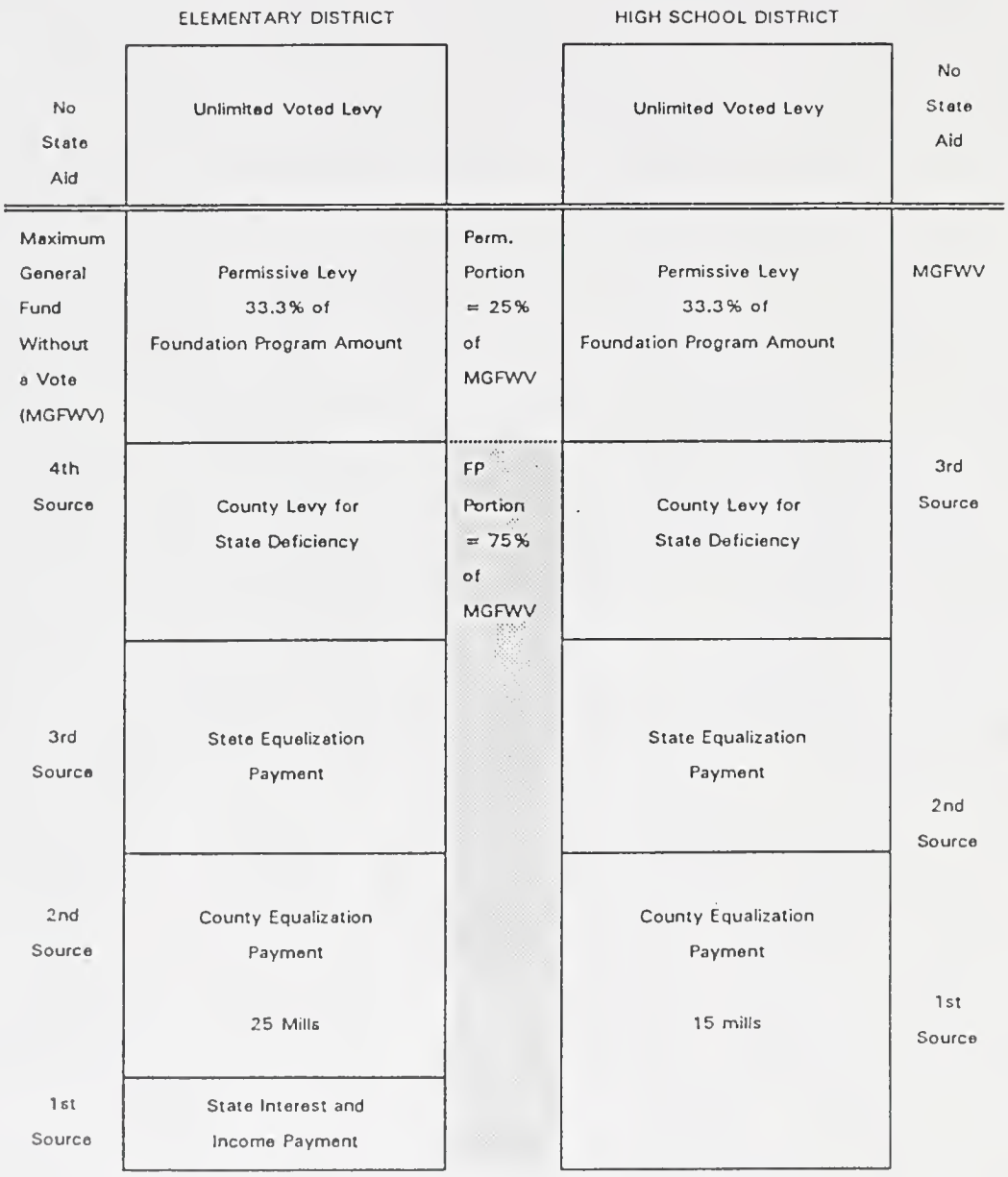
- The 50 percent limitation on state participation in MGFWV schedule funding was repealed. This meant an end to the district levy for any remaining local obligation--one of the most unequal aspects of the school funding structure. This levy was routinely required for those districts that received small amounts of interest and income money or that had to assist with county equalization shortfalls to round out the required 50 percent district and county obligation. Opponents of the district deficiency levy felt that it was time for the state to share responsibility for the effects of increased enrollments and inflation, and since 1949, the 50 percent limitation had placed that burden only on districts.

The modifications in the financing formula resulted in some degree of tax equity in that more millage was spread across each county's tax base and redistributed to the districts of a county. Under the new plan, property-rich counties would lose eligibility for SEA funding, thus freeing up state aid for distribution to property-poor counties. Figure 2 shows the new system.

FIGURE 2

MONTANA PUBLIC SCHOOL

GENERAL FUND STRUCTURE IN FY 1964



* The 1967 Legislature changed the permissive to foundation program ratio from the 25:75 ratio above to a 20:80 ratio.

** The 1965 Legislature changed the county equalization mills to 24 elementary mills and 14 high school mills, but the 1969 Legislature reinstated the amount above.

Thirty-Ninth Legislature (1965)

During the 1964-65 biennium, available SEA revenue exceeded the new MGFWV schedule requirements and prompted enactment of legislation to require that $1.8 million of the excess SEA funds be used to reduce the county high school equalization levies.[17] The basic county tax for elementary districts was reduced by 1 mill to 24 mills, and the basic county tax for high school districts was reduced by 1 mill to 14 mills. Even with these fortunate circumstances and the new funding mechanism, the foundation program contribution to the GF budgets of the state's districts remained at only 66.5 percent for FY 1967. See Appendix C.

Fortieth Legislature (1967)

As a means of reducing reliance on school district property taxation, the 1967 Legislature bumped the minimum state guaranteed (FP) portion of the MGFWV schedules back up to 80 percent, thus reducing the permissive levy allowance to 20 percent.[18] However, SEA sources could not satisfy this new obligation, and a state deficiency in equalization funding was recorded. The 15 percent increase in the MGFWV schedules--the largest increase since 1949--contributed to a drop in the use of voted levies for FY 1968, but as was often the case, those levies would creep up again in the second year of the biennium.

Facts to Date: The total statewide ANB count had doubled from 94,578 in FY 1949 to 180,987 in FY 1967. Traditionally, high school pupils account for one-third of the total state ANB count.

Forty-First Legislature (1969)

When the 1969 Legislature convened, it faced the following stresses on the school finance system: continuation of an inflation rate that was growing faster than statewide taxable valuation; demands for general property tax

reductions; and an apparent end to the recent Bell Creek oil boom, which had contributed significant interest and income money to the SEA coffers in recent years. Notwithstanding these conflicting pressures, a 12 percent increase in the FP schedules was enacted and backed by increases in individual income and corporation license taxes and the most generous state general fund appropriation to date. See Appendix D. An additional act brought the basic county levy for elementary schools back up to 25 mills and boosted the basic mills for high schools to 15 mills.[19]

As had been the case for more than a few years, the Superintendent of Public Instruction called for implementation of the ever-elusive system of uniform property tax classification and assessment and implored the 1969 Legislature to extract more income from state lands for school purposes.

Forty-Second Legislature (1971)

The 1971 Legislature processed a heavy load of education-related legislation as part of a total revision of school law.[20] The interim Legislative Subcommittee on Recodification of School Laws and OPI agreed at the outset of the revision in 1969 that no substantive changes in school law would be included in the project. This promise had to balance against the need to align statutes with the "actual practice of recent years", which included court interpretations and federal requirements. In its final form, this update of some of Montana's oldest laws did succumb to a number of substantive statutory changes in procedures, definitions, and requirements that were not discussed in detail during passage of the recodification package.

Both the legislative concentration on school law and the effects of price inflation on educational expenditures may have inspired a number of legislative acts calling for studies of school funding issues.[21] A legislative examination of the effects on the state treasury of the SEA distribution to districts prodded the new Board of Public Education to use its administrative

authority to parcel out the money five times each school fiscal year, beginning in September 1972. The longstanding distribution of 60 percent of state aid in December and 40 percent in June had historically caused a cash shortage in the state general fund at inconvenient times.[22]

Forty-Third Legislature (1973)

Actions in the 2 years prior to this session had produced a significant workload for the 1973 Legislature. The 1972 Constitutional Convention had studied, debated, and incorporated into the newly approved 1972 Montana Constitution language mandating that the state would fully fund its share of the cost of a "basic system of free quality" public schools and would guarantee an equitable distribution of that share (Article X, section 5, 1972 Montana Constitution). Constitutional drafters were cognizant of recent court cases[23] in several states compelling equality of educational opportunity and taxpayer equity and wanted those guarantees as a cornerstone of the state's primary education policy as it would appear in the new constitution.[24]

During the past interim, the Montana Legislative Council had compared the Montana school finance system to those states in which the systems had been declared unconstitutional.[25] Of particular concern was the fact that 67 percent of the costs of education in Montana were funded through local property tax bases, an inherently suspect basis in that variations in property wealth can affect the quality of a child's education. The study recommended the following substantial changes in the Montana school finance system:[26]

- The MGFWV schedules should be increased to equal the weighted average GF budget expenditures per ANB of the various-sized districts, based on a compilation and analysis of statewide school district GF budget expenditures.

- The foundation program portion of the MGFWV schedules should be

raised from 80 percent to 90 percent to reduce reliance on the district permissive levy.

- District GF budget increases should be limited to 107 percent of the previous year's GF budget if the district was currently spending above the MGFWV schedules (effective for FY 1975).

- Interest and income from state lands should be included in the SEA pool and state impact aid and other earmarked county funds should be added to the county equalization pool for the purpose of redistributing this revenue either across the state or across the county on an ANB basis.*

- The "additional county levy for state deficiency" and the county equalization levies should be replaced with a statewide levy and a statewide deficiency levy to utilize the entire wealth of the state for full funding of the foundation program portion of the schedules.**

The discussion of alternative taxes for education was limited to the possibility of a severance tax on natural resource extraction because a widely debated sales tax initiative had been defeated in the November 1971 general election.

The 1973 Legislature enacted all the recommended changes except changing to 90:10 the existing 80:20 ratio between the foundation program portion and the permissive levy portion within the MGFWV schedule structure.[27] The MGFWV schedules were not increased until the 1974

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* Article X, section 5, of the 1972 Montana Constitution required that interest and income on school lands be equitably apportioned. A 1972 report by the Office of the Legislative Auditor had strongly recommended this change.

** The 1972 Montana Constitution had removed the previous constitutional barriers to this type of tax. Following enactment of this provision by the 1973 Legislature, the Montana Supreme Court upheld the statewide tax in State ex rel. Woodahl v. Straub, 164 Mont. 141, 520 P.2d 776 (1974).

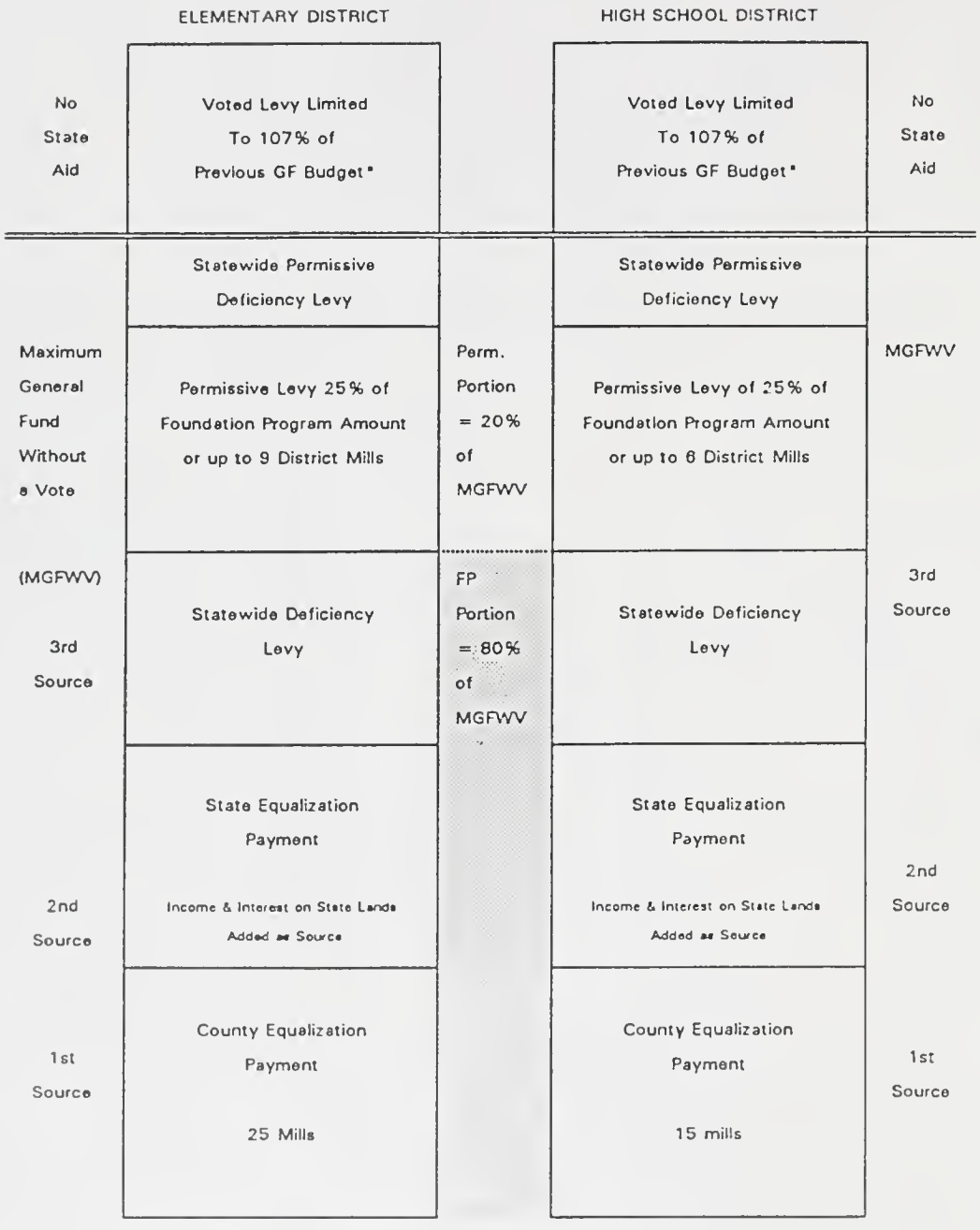
Session. See Appendix B. Excess revenue from the new basic county equalization levies for elementary and high school districts was to be "recaptured" and added to the SEA for redistribution across the state.

In addition, the Legislature lessened some of the inequity among district taxpayers by enacting a statewide permissive deficiency levy to provide a broader-based equalization of the permissive levy portion of district GF budgets. The permissive portion was "power equalized" so that an elementary district that was unable to raise the revenue to fund all or a portion of its allowable 20 percent with up to a 9-mill levy (or a 6-mill levy for a high school district) could receive money collected through the statewide permissive deficiency levy. **Figure 3** shows the changes effective for FY 1974 .

FIGURE 3

MONTANA PUBLIC SCHOOL

GENERAL FUND STRUCTURE IN FY 1974


ELEMENTARY DISTRICT
HIGH SCHOOL DISTRICT
No State Aid
Voted Levy Limited To 107% of Previous GF Budget*
Voted Levy Limited To 107% of Previous GF Budget*
No State Aid
Statewide Permissive Deficiency Levy
Statewide Permissive Deficiency Levy
Maximum General Fund Without a Vote
Permissive Levy 25% of Foundation Program Amount or up to 9 District Mills
Perm. Portion = 20% of MGFWV
Permissive Levy of 25% of Foundation Program Amount or up to 6 District Mills
MGFWV
(MGFWV)
3rd Source
Statewide Deficiency Levy
FP Portion = 80% of MGFWV
Statewide Deficiency Levy
3rd Source
State Equalization Payment
Income & Interest on State Lands Added as Source
State Equalization Payment
Income & Interest on State Lands Added as Source
2nd Source
2nd Source
County Equalization Payment
25 Mills
County Equalization Payment
15 mills
1st Source
1st Source

* The 1974 Legislature replaced this cap, which was to be effective for FY 1975, with a cap of 112 percent. The 112 percent cap was repealed by the 1975 Legislature before it became effective.

In other school funding activity, the education community successfully promoted the transfer of the elementary district employee retirement obligation and all districts' Social Security contributions from district GF budgets to a "county retirement levy".* This action resulted in a nearly 5 percent increase in GF budgeting authority and a 6.6 percent increase in county property taxation. As political subdivisions of the state under the provisions of 2-9-212, MCA, districts were allowed a separate budgeted fund and nonvoted levy to pay insurance premiums, to create a fund for deductibles, or to provide a self-insurance program.[28] The 1973 Session also responded to public pressure to fund kindergartens through the foundation program.[29] The Department of Revenue's new authorization to supervise all property assessment throughout the state was intended to achieve equalization of all taxpayer contributions through uniform and fair assessment practices.[30]

During the 1973 overhaul of the school finance structure in Montana, there was much interest in more closely defining the language in Article X, section 1, of the 1972 Montana Constitution requiring the Legislature to "provide a basic system of free quality public elementary and secondary schools". Senate Resolution No. 14 requested that the Board of Public Education prepare a definition of basic education "for use in consideration of future budgetary schedules".

Facts to Date: School enrollment for FY 1973 was the highest in the history of the state, at 191,958 ANB. The average cost per ANB was $907. The average amount of the district GF budgets that was financed by voted levies rose from 20.4 percent in FY 1974 to 23.3 percent in FY 1975. The voted amount doubled in the years from FY 1970 to FY 1973.

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* Chapter 281, Laws of 1973, added these obligations to the countywide levy in support of high school teachers' retirement obligations, which had been created in 1945. Prior to this change, elementary districts funded this obligation with a "nonvoted" levy of up to 10 mills, followed by a "voted" levy for any amount not obtained with 10 mills.

Forty-Third Legislature in Second Session (1974)

The 1974 Legislature replaced the 107 percent cap on allowable GF budget increases, which was to be effective for FY 1975, with a cap of 112 percent.[31] Other legislation provided that any unexpended SEA money would be transferred to reduce the next year's statewide permissive deficiency levy.[32] Changes in federal requirements and funding for special education prompted the need to alter the method of budgeting for special education from an ANB-related allowance to an "allowable cost" system. This new funding method was to be based on actual expenditure data and promised 100 percent state assistance for special education.[33] Middle schools were authorized as an alternative to junior high schools.[34] Seventh and eighth grade pupils in a middle school would be funded on the high school schedule, while funding for those in lower grades would be calculated on the elementary schedule.

Forty-Fourth Legislature (1975)

One alteration of the school funding structure during the 1975 Session allowed an elementary district to budget a permissive levy of up to 9 mills or a high school district to budget a permissive levy of up to 6 mills and still qualify for equalization from the statewide permissive deficiency account on a prorated basis. Other legislation allowed districts to transfer workers' compensation obligations from the GF budget to the county retirement fund.[35] An OPI analysis compared the actual district general fund expenditures for FY 1974 to the MGFWV schedule guarantees for the various sizes of districts. The Legislature passed recommended adjustments to the schedules that ranged from a 6 percent increase for the smallest school size to a 20 percent increase for each ANB in an elementary school with 101 ANB or greater.[36] See Appendix B.

The Board of Public Education presented its mandated study to define what constituted a "basic quality education" in Montana.[37] After a 17-month

study in conjunction with OPI involving 55 meetings across the state the following definition was adopted:

> A basic quality education is a process which can enable students to transform their potential into actuality.

To flesh out this statement, the Board's study identified eight curricular dimensions of the definition and offered 22 recommendations for adoption by the Legislature, school districts, and postsecondary institutions. The Board was criticized by some for offering a somewhat vague "outcome-oriented" definition of a basic quality education, rather than delineating the "comprehensive legal description or definition" envisioned by the 1973 resolution as an aid to establishing realistic funding goals for education in the future. As part of the study, the Board recommended adjusting the MGFWV schedules to reflect actual costs of schooling and to support a uniform percentage (such as 80 percent) of actual district expenditure levels for various district sizes.* With little objection from legislative policymakers, the Board and the Superintendent of Public Instruction successfully promoted the repeal of all legislative curriculum mandates and the Board's authorization to specify and define the basic instructional program for districts through accreditation standard rules (See 20-7-111, MCA).[38]

The 1975 Legislature appropriated 10 percent of collections from the newly enacted coal severance tax to the SEA for the use of public schools. In addition, 35 percent of the coal tax collections were dedicated to a local impact and education trust fund account, with a portion of the interest from the account also routed to the SEA.[39]

The district GF budget limitation of 112 percent of the previous year's budget was eliminated in favor of simply reporting to OPI any budget

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* The Board's study of district general fund expenditures for FY 1973 revealed that the very smallest elementary districts received a larger share of support compared to medium-sized and large districts. Expenditure patterns also indicated that large high schools and those near the 100 ANB size had been supported at a relatively low level.

increase that exceeded 110 percent of the preceding year's budget.[40] A number of legislative acts during the 1975 Session strengthened the state's roll in uniform assessment of property in the state, which would in turn improve taxpayer and school funding equity within the state.[41]

Facts to Date: Montana's total school enrollment declined 37 percent from 1959 to 1973, while the national enrollment figures showed only a 10 percent decline. Teacher salaries in Montana increased 37 percent from 1961 to 1971.

Forty-Fifth Legislature (1977)

The 1977 Legislature increased the percentage of revenue available for the SEA from federal oil and gas royalties from 50 percent to 62.5 percent of the federal funds returned to the state.[42]

At a special meeting late in the 1977 Session, school officials lobbied legislators and the Governor to increase the MGFWV schedules by 7 percent for the biennium. State equalization revenue estimates suggested that the statewide deficiency levy would be required to balance increases of this magnitude, but education spokespersons favored the deficiency levy over boosts in district voted levies because of the somewhat equalizing nature of the levy. At the meeting, many legislators questioned the rising costs of education in a time when school enrollment was falling.

As it turned out, the state deficiency levy was unnecessary for FY 1978. However, for FY 1979, the Superintendent of Public Instruction had to order a substantial state deficiency levy. The deficit was partially attributed to unanticipated increases in "allowable costs" for special education.

Legislation to bring the distribution of the new coal severance tax into compliance with Constitutional Amendment No. 3 (1976) replaced the original allocations to the public schools with a 5 percent direct allocation of

the coal tax to the SEA and approximately an 18 percent allocation to the education trust fund.[43] The first 50 percent of each year's coal severance tax collections was locked away in a permanent trust fund, requiring the approval of three-fourths of both houses of any Legislature to access the account (Article IX, section 5, Montana Constitution).

Forty-Sixth Legislature (1979)

The Superintendent of Public Instruction reported to the standing education committees of the 1979 Legislature on the results of a recent OPI-sponsored study of school funding.[44] Two-thirds of the 34 members of the study committee agreed that the state's share of the foundation program needed to expand, either through MGFWV schedule increases or through a reduction in the basic county levies. The variations in the districts' abilities to raise revenue through the voted levy were wide, ranging from $5.50 per mill per ANB in the property-poor districts up to $1,000 per mill per ANB in the property-rich districts.* Based on an extensive analysis of district general fund expenditures as compared to money received through the MGFWV schedules, the study recommended the following:

- Increase the MGFWV schedules to meet actual expenditures in the various sizes of schools in order to honor the guarantee of a basic or minimum educational system;**
- Provide a combination of classroom-unit and ANB-based funding for elementary schools with under 100 ANB and for high schools with under 300 ANB;
- Require OPI to produce an annual expenditure analysis similar to the one prepared for the study in order to track expenditure patterns and

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* For FY 1978, 71.6% of the 405 elementary districts and 95.2% of the 165 high school districts were using voted levies to help fund GF budgets. Only 1 high school district and 24 elementary districts were not accessing the full permissive amount allowed.

** Analysis showed the heaviest reliance on voted levies occurring in the elementary districts with between 41 and 100 ANB and in the high school districts with between 200 and 300 ANB.

to guide schedule increases and other funding policy changes.

As indicated in testimony from OPI, the recommended 9.2 percent schedule increase would translate into a 7 percent increase in funding in that statewide ANB was predicted to decline by 8,000. A compromise resulted in an 8 percent schedule increase for FY 1980 and a 10 percent increase for FY 1981. Retirement, workers' compensation, and Social Security obligations for special education employees (7 percent of special education costs) were removed from the district GF budget and funded under the county retirement levy.[45]

On the prediction that revenue for FY 1980 would not be sufficient to fund the schedule increases, a deficiency levy of $1.5 million was assessed. In October 1979, the Montana Taxpayers' Association filed a suit against OPI, claiming that the statewide deficiency levy was unnecessary because a $1.9 million surplus from FY 1979 could have covered the predicted shortage. In court, OPI testified that the surplus could not be fully realized until after the August deadline for finalizing school funding needs for the coming academic year. A surplus of $11 million did accrue during FY 1980, and the early realization of this windfall made a deficiency levy unnecessary for FY 1981.

In a move that would influence income tax revenue to the schools up to the present, the Legislature approved a measure to index state income tax brackets for the effects of inflation.* The Governor vetoed the bill, but the issue was subsequently presented and approved as Initiative Measure No. 86, 1980.

By FY 1981, the voted levies rose by an average of 31.3 percent for all the district GF budgets in the state or by a statewide total of $17.3 million.

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* Estimates as to possible reductions in stete income tax revenues ranged from $10 million to $40 million per year.

Forty-Seventh Legislature (1981)

The 1980 Montana Taxpayers' Association suit against OPI had sparked interest in instituting an alternative to the state deficiency levy. That group threatened to sue the state each year in which such a levy was called.[46] A $41 million carryover from FY 1981, resulting from significant increases in oil and gas leasing on state lands* and from lower than anticipated school enrollments, promised either a reduction in state general fund appropriation for the SEA or a significant MGFWV schedule increase.

House Bill No. 690, calling for schedule increases of 25.8 percent for FY 1982 and 12.1 percent for FY 1983, had originally contained a "capping" provision that would have limited district voted levies to no more than 90 percent of the previous year's GF budget or to no more than 25 percent of the proposed total district GF budget. School officials feared that the "caps" would be too restrictive. Others recalled that the previous caps (limiting GF budgets to 112 percent, then to 110 percent of the previous year's GF budget) had been largely unsuccessful because of the use of various loopholes.** Compromise legislation deleted the capping provision and revised the requested MGFWV schedule increase to 18 percent for FY 1982 and to 15 percent for FY 1983.[47]

Chapter 317, Laws of 1981, removed the authority of the Superintendent of Public Instruction to direct the imposition of a statewide deficiency levy if the SEA sources were insufficient to fully fund the state's FP schedule obligations. This levy had been used 6 out of the past 8 fiscal years to collect a total of $26 million. While there were numerous opponents to any "after-the-fact" adjustments for SEA shortfalls, that viewpoint did not prevail, and the Superintendent was mandated to request the Legislature for

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* Revenue from oil and gas leasing had risen 300 percent from 1978 to 1981 and accounted for $30 million of the available surplus.

** After FY 1976, any district that budgeted beyond 110 percent of the previous GF budget was required to notify OPI. The provision was largely ignored and was revoked by Chapter 75, Laws of 1981.

a supplemental appropriation for any biennium in which revenue fell short. In addition, the statewide permissive levy was eliminated and replaced with a biennial appropriation from the state general fund or from excess SEA revenue when available.[48] The aforementioned legislative changes enabled the state to estimate and to fully fund its share of the MGFWV schedules in a less complicated manner. House Bill No. 611, Laws of 1981, provided a generous contingency fund of $32 million to cover the permissive obligation and to serve as an SEA source, if necessary.

During the 47th Session, the warning shots of a school funding lawsuit were fired, and a concerned Legislature responded by passing House Joint Resolution No. 34 to study possible taxpayer and educational disparities in the school funding structure. Senate Joint Resolution No. 25, calling for a study of the funding of the county retirement levies for school districts, was eventually included in the school funding study. The Superintendent of Public Instruction had recently commissioned a study of the state's fiscal support of the public schools. The "Bandy" report would become a vital source of argument for enhancing school revenue and equalization in the state.[49]

Facts to Date: Most districts were being affected by a decline in both taxable valuation and enrollment, which had a tendency to provoke higher mill levies rather than to lower GF budgets. Districts with under 300 ANB had mill levy increases even though the total voted amount statewide dropped to 29.4 percent for FY 1982 (from 31.3 percent in FY 1981). However, many districts increased their GF budgets less than the 18 percent hike in MGFWV schedules.

Forty-Eighth Legislature (1983)

During the 1981-82 interim, the Joint Subcommittee on Education (Subcommittee) had sought the advice of the nation's leading school finance experts and analyzed the funding disparities among the district GF

budgets.[50] The evidence was clear that disparities in district wealth and subsequent disparities in expenditures per ANB could spark a successful legal challenge of the school finance system. To stave off court involvement in the legislative prerogative, the Subcommittee recommended to the 48th Legislature two advances toward school funding equalization.

Senate Bill No. 94 would have eliminated the permissive funding portion of district GF budgets and, as a replacement, would have increased the basic county equalization levy in support of the FP schedules for elementary districts from 25 mills to 35 mills and would have increased the basic county equalization levy for high school districts from 15 mills to 20 mills, for a total of 55 "statewide" mills to be levied as the first tier of equalized funding for the districts in each county. The interim study had found that the permissive funding portion was being used by all but a few districts.* The net effect of these shifts in funding meant an additional $4.6 million each year to the SEA.

Senate Bill No. 76 would have created a guaranteed tax base (GTB) program to promote more equitable financing of the voted portion of school district GF budgets, which had grown to one-third of the total GF budgets for school districts in the last few years. The Subcommittee acknowledged the constitutional protection of local control of district spending (Article X, section 8, Montana Constitution) and felt that an equalizing mechanism based on local, voted choices would balance this established standard with the Legislature's constitutional mandate for "equality of educational opportunity" (Article X, section 1, Montana Constitution).

It was no secret in the halls of the Capitol that compromise on the

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* For FY 1982, 121 of the 394 elementary districts could fund the permissive amount with less than the allowable 9 mills; however, the 121 districts represented only 6.5 percent of the total elementary ANB count and 38 percent of the state's taxable wealth. Twenty-seven of the 162 high school districts didn't need the 6 mills allowed to fund the permissive portion; these 27 districts represented 9 percent of the total high school ANB count and 37 percent of the state's taxable wealth. Forty-six percent of the state's taxable wealth was in school districts where oil, gas, and coal extraction occurred, yet these districts contained only 7.5 percent of the state's school population.

Subcommittee legislation was hard won. The permissive levy was retained, and the basic county levies were increased to 28 mills for elementary districts and to 17 mills for high school districts.[51] The increase was used to raise the MGFWV schedules by 4 percent for FY 1984 and by 3 percent for FY 1985. (The GTB concept was to "wait on the shelf" until acceptance as a major equalization tool in the 1989 June Special Session.)

The Subcommittee had considered various options for equalizing the countywide retirement obligations on behalf of districts in each county but offered the 1983 Legislature no specific solution in deference to the priority placed on the question of equity within district GF budgets.[52] One option that surfaced in legislation, but failed to pass, would have rolled the various employee benefit obligations into the district GF budgets, to be funded with a portion of the basic county equalization levies.[53]

In other significant school funding legislation, the allocation of federal forest reserve funds was revised to require that these funds also be available on a prorated basis to the high school transportation levy and retirement levy (both countywide levies).[54] Also, elementary districts that anticipated an ANB of at least 14 but less than 18 could seek funding for an instructional aide to assist the one-teacher school.[55]

Facts to Date: Public school enrollment in Montana had decreased by 22.8 percent from FY 1975 to FY 1984, but statewide district expenditures had tripled in that period, from $174.2 million to $535.8 million.

Forty-Ninth Legislature (1985)

A substantial decline in state revenue, largely due to falling oil prices, forecast a gloomy climate for funding Montana public schools during this biennium. The 1985 Session granted school districts a 4 percent schedule increase for both FY 1986 and 1987, despite calls by the Governor for a 2 percent cut in state spending. In other regular session legislation, Chapter

110, Laws of 1985, required trustees of a district to place only the amount to be raised by a mill levy on the voted levy ballot, thus negating the need for elector approval to use nonproperty tax revenue, such as motor vehicle fees and federal aid, to budget above the MGFWV schedules. Legislation initiating a state lottery (proposed for referendum and approved in the November 1986 general election) directed up to 40 percent of the net lottery revenue toward equalization of the county retirement levies. The county property tax obligation for retirement had risen from $33 million in FY 1981 to $47 million in FY 1986.[56] The lottery revenue would be distributed on an ANB basis to any county with taxable valuation below the statewide average.

When the state revenue forecast worsened for FY 1987, the Legislature was called back in June 1986 for a special session. To cover the $100 million shortfall, state government agencies were asked to absorb a 5 percent budget reduction, and anticipated pay increases for state employees were not funded. It was argued that public education could endure a cutback of the FY 1987 FP schedule increase to 1 percent because it would translate into less than a 2 percent loss in anticipated funding when declining enrollments were taken into account. Also, allowable school district cash reserves (up to 35 percent of district GF budgets) were reported at $123 million, with average reserves of over 26 percent per district, and the argument was made that these funds could cushion loss of the anticipated 4 percent increase. To balance any loss in district cash reserves, the Legislature set July 1986 as the time for disbursement of 20 percent of the first SEA payment to districts.[57] In other special session legislation affecting school funding, the coal tax revenue and interest flows to the SEA were rerouted for a net loss of $300,000 to the account.[58] However, 100 percent of the U.S. mineral royalties, rather than 62.5 percent, were allocated to the SEA, for a gain of $7.9 million.[59] The end result of these and other revenue and tax changes, in concert with the drop in FP schedule funding to 1 percent, balanced the SEA for the remainder of the biennium.[60]

In April 1985, a coalition of 64 public school districts and parents of students in those districts filed a lawsuit in District Court, claiming that the state's system of public school financing violated the fundamental constitutional rights of students to equal protection of the law and to equal educational opportunity.[61] In the following months, lawmakers attempted to forestall the lawsuit by encouraging the defendants--the State of Montana, the State Superintendent of Public Instruction, and the Board of Public Education--and the plaintiffs to negotiate an out-of-court settlement, with the Legislature as part of the mediation process.[62] In an attempt to track the progress and issues of the lawsuit, the Legislative Finance Committee (LFC) appointed the School Funding Subcommittee (Subcommittee). The measures recommended to the 1987 Legislature by the Subcommittee did not include an overhaul of school funding.[63] However, the Subcommittee did sponsor the enabling legislation for the accreditation standard review and study process discussed in the following history of the 1987 Legislature. The Subcommittee felt that it was important to seek statewide consensus on the content of the standards in the event that a court or the Legislature might decide to use them as the basis for a definition of a basic system of schools upon which funding changes might be built.[64]

Facts to Date: From FY 1970 to FY 1985, the Consumer Price Index (CPI) rose 176 percent, while the Legislature increased the FP schedules by 228 percent for that period. The CPI rose 99 percent from FY 1975 to FY 1985, while the FP schedules rose 169 percent.

Fiftieth Legislature (1987)

The 1987 Legislature faced bleak economic projections brought on by a slump in the critical resources extraction and agricultural industries. And it wasn't going to be cases possible to put revenue burdens back on local sources of funding--voters had overwhelmingly approved Initiative Measure No. 105 in November 1986 to freeze the property tax levies of local taxing

jurisdictions their 1986 levels. School officials complained that the districts would quickly use up their general fund reserves and be required to reduce staff and services.

Even though the Legislature froze the MGFWV schedules for the 1988-89 biennium, the shortfall in the SEA required a boost from a 10 percent individual income and corporate income tax surcharge.[65] Through a series of raids, the education trust fund (from coal tax collections) was depleted by $71 million, with $34 million going to the SEA and the rest going toward balancing the state budget, leaving only $8.5 million from which to derive future interest for the SEA.[66] Effective for FY 1989, an estimated $9 million in state lottery proceeds was to be distributed on a per-ANB basis to every county that levied more than 9 mills for the countywide retirement fund levy in the previous year.[67]

Because neither an out-of-court settlement of the "underfunded school" lawsuit nor a comprehensive school funding reform package materialized during the 1987 Session, the plaintiffs proceeded with their case, which began in May 1987 before District Court Judge Henry Loble. The 6-week trial involved what some described as a "U-Haul load" of data and testimony from witnesses across the state and from nationally recognized experts on school programs and funding. The "Loble decision", upholding the plaintiffs' position, was handed down January 13, 1988.[68] The school funding system was found to deny students their constitutional rights both to equal protection under state laws and to equality of educational opportunity. Judge Loble retained jurisdiction of the case and delayed the effective date of his findings until October 1, 1989, in order to allow the 1989 Legislature the opportunity to devise and enact an equitable system of school funding. He did not interject specific remedies but did suggest a focus on equalizing per-pupil expenditures within ranges of similarly sized districts, with exceptions for educationally relevant differences. Various legislative committees, confronted with the vast implications of the Loble ruling, urged the state and other defendants to appeal the decision to the Montana

Supreme Court.[69]

The state's appeal was heard before the Montana Supreme Court in November 1988. During that fall, the impending decision hung like the sword of Damocles and prompted a number of public forums and study groups to seek consensus on appropriate governmental responses.[70]

The Legislature honored the request of the LFC to pass House Joint Resolution No. 16, Laws of 1987, requiring the LFC, the Board of Public Education, and an interim study committee to define basic education for Montana public schools and to recommend how such a basic education should be equitably funded. During the interim, the K-12 Subcommittee of the LFC studied the cost components of existing and proposed accreditation standards and recommended the following to the 51st Legislature:

- The foundation program portion of the MGFWV schedules should be based on the cost of quantifiable portions of the accreditation standards and should be fully funded.
- School employee retirement costs should be included and equalized within district GF budgets.
- Teacher experience levels should be considered as a weighting factor in determining equalization funding. New FP schedules were developed based on new categories for district sizes, on GF expenditures that could be related to meeting the proposed accreditation standards, and on teacher experience factors.*
- Public Law 81-874 federal funds should be used as a revenue source for district equalization.
- Ten percent of any locally approved spending above the foundation program portion of the schedules should be "power equalized" at $100 per ANB per mill.
- The district GF budget amount should be capped at 25 percent

* This concept was introduced to the 1989 Legislature as Senate Bill No. 198 but failed to pass either house.

beyond the schedules, and any district with a budget in excess of the 125 percent amount should be allowed 4 years to make incremental budget reductions to come within the limitations.[71]

The Board of Public Education involved hundreds of Montanans in Project Excellence, a redesigning of school accreditation standards "to meet the needs of students in the 21st Century".[72] The Joint Interim Subcommittee on Basic Education tracked the work of the Board and recommended that the instructional portion of any definition of a basic system of education be based on the school accreditation standards adopted by the Board.[73]

Facts to Date: In FY 1986, excess county equalization aid revenue flowed from 10 counties into the SEA; by FY 1988, a $10 million loss (mostly in revenue from resource extraction) left only 4 counties as "senders".

Fifty-First Legislature (1989)

The good news for school funding going into the 1989 Session was that school enrollment had declined more than anticipated, for a projected savings of $10.2 million. Also, net revenue available to the SEA account had experienced positive growth in the period, with an increase of approximately $5.5 million. However, the bad news was that revised state general fund revenue and expenditures showed a smaller ending fund balance for FY 1988 and FY 1989 than had been anticipated. The 1989 Legislature was barely settled in when, in February, the Montana Supreme Court shook the Capitol pillars with its concurrence in the Loble decision that the Montana school finance system was indeed unconstitutional. One of the aftershocks was that the Supreme Court gave the Legislature 6 months to fix the problem.[74]

The leadership of the House of Representatives promptly appointed the House Select Committee on Education to hear all major school funding reform legislation. Committee staff developed and continuously updated a

series of charts that linked all the school funding components to various legislative proposals and to the education community's consensus points.[75] The predominant interpretation of the verdict centered on the need to find wealth-neutral funding sources for at least 85 percent of the GF budget amounts spent by the state's school districts in recent years. Another proposed goal was to equalize per-pupil expenditures among districts so that when the statistical extremes of either end were removed, variations in spending would not vary more than 25 percent.[76]

Senate Bill No. 203 emerged as the compromise package and survived until the final hours of the regular session, when lawmakers became deadlocked on the bill's taxation measures. Having failed to resolve the school funding dilemma in the regular session, the 51st Legislature adjourned on April 21, 1989, only to be summoned back to Helena 6 weeks later to address the issue once more.

Governor Stephens called for a special legislative session to begin June 19, 1989. Only 11 days remained in which to devise a school funding scheme before the Supreme Court's July 1,.1990, deadline threatened to curtail school district activity. In the final days of June, the Legislature narrowed the field of funding options to Senate Bill No. 26, a plan favored by most in the education community. That bill would have increased statewide equalization levies to 100 mills, frozen the budgets of higher-spending districts, and equalized teacher retirement costs with state equalization aid. Following a promised veto of the bill by the Governor, the Supreme Court extended to July 17, 1989, its deadline for the Legislature's enactment of an equitable system of school funding.

With reprieve in hand, the Legislature tried once more to fashion a compromise plan, this time combining the GTB program in House Bill No. 39 with House Bill No. 28 (HB 28), which had passed the House of Representatives in a much-amended form.[77] As final action concentrated in the Senate Education Committee at the end of the first week of July, a

plan jelled to allow "revenue neutrality" for the oil, gas, and coal industries by repealing the property tax on those resources and instating a "flat tax" or local government severance tax on the gross value of this production.

The statewide levy of 40 mills enacted in HB 28 as a "new" source of revenue for state equalization aid was estimated to generate around $60 million a year. Basic county equalization levies were increased from 45 mills to 55 mills (33 mills for elementary districts and 22 mills for high school districts). State equalization aid was pledged for any loss to county equalization levies from protested taxes. The reform package also dedicated the following estimated sources of revenue to the SEA: the net income from the lottery, previously shuttled to equalize county retirement levies; a 5 percent education surtax on individual income and on corporate income (both surtaxes to be effective only for calendar year 1990);* and an increase in the percentage of income tax revenue that is deposited in the SEA, from 31.8 percent in FY 1989 to 41.3 percent for FY 1991.** The education trust fund, established from coal severance tax collections, was abolished and the balance in the fund rerouted to the SEA. Additionally, 15 percent of the interest from the coal tax permanent trust funds provided for in 17-5-703, MCA, and 11.4 percent of the total coal severance taxes provided for in 15-35-108, MCA, were also earmarked to the SEA. Appendix A shows the funding structure effective for the FY 1991 school year. Appendix E shows trends in SEA revenues this decade.

To ensure that mineral producers were held harmless from substantial additional taxes due to increased millage for school equalization purposes, the existing property taxation of oil, natural gas, and coal production was repealed and replaced with a local government severance tax, or "flat tax", on the gross value of production of these minerals.[78] A number of

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* A statement in HB 28 declared the income surtax to be "in lieu of a general sales tax".

** House Bill No. 28 inadvertently ended the allocation of portions of the personal and corporate income taxes to SEA beginning in FY 1992, and Senate Bill No. 17 restored amounts close to the traditional allocation--28.5 percent.

inadvertent flaws in the new flat tax and local government severance tax statutes required correction in a second special session of the 51st Legislature, which was held May 21 through May 25, 1990.

The Legislature passed the much-amended HB 28 and adjourned on July 14, 1989. The Governor signed the bill on August 11, 1989, opining that despite many flaws, the plan did advance equalization and "was the least costly" of any of the proposals seriously considered in either session. Three days after adjournment, the Supreme Court ordered both sides in the dispute to comment on the likely effects of HB 28. Plaintiff school districts took the opportunity to stress the following points:

- Because equalization of school capital outlay and transportation was not addressed in HB 28, the Supreme Court should postpone the effective date of the declaration of unconstitutionality on these issues until July 1, 1991, to allow the 1991 Legislature an opportunity to repair these funding areas.

- The effective date of constitutional issues covered in HB 28 should be postponed until July 1, 1990, when the new plan became operative (the state also supported this point).

- HB 28 gave little promise of equalizing either per-student district general fund spending disparities or employee benefit costs covered by the county retirement levies.[79]

On January 4, 1990, the Supreme Court delayed the effective date of its previous ruling until July 1, 1991, and relinquished jurisdiction over the school funding case, requiring future challenges to be initiated in District Court. The Supreme Court felt that the delay would permit the 52nd Legislature to appraise and possibly refine the new funding system.

In his call issued for the special session held in June 1989, the Governor had

called upon the Legislature to define a "basic system of free, quality education" and to determine the state's share of the funding for that system.[80] Senate Bill No. 16 (Chapter 3, Special Laws of June 1989) created the Joint Legislative Committee on Accountability and Quality in Education, a study committee that looked at the Governor's proposals on school choice, alternative teacher certification, and student achievement testing. This committee did not make recommendations to the 52nd Legislature.[81]

Facts to Date: By 1989, the statewide ANB count had dropped to levels equal to those in the early 1960s. From FY 1981 to FY 1991, the FP schedules were enlarged by 111 percent, while the CPI gained 73 percent and the GF budgets of Montana's school districts grew by 127 percent.

Fifty-Second Legislature (1991)

On the eve of this session, the revenue picture appeared more optimistic than any year since 1983 because of increased income tax collections following federal tax reform and higher oil prices. Under the new school funding program, the state payment to districts increased from $187.2 million in FY 1990 to $296.6 million in FY 1991. This more than $100 million increase in state support was primarily a function of revenue shifts under the new system and did not reflect an absolute increase in funding for district use. While HB 28 had increased the SEA's share of existing revenue (lottery, income tax, interest, etc.) and added the 40-mill statewide levy, the expanded account was in trouble--the costs of the GTB program for equalization of the district permissive and county retirement levies were $17 million higher than expected.*

* In FY 1991, 200 districts received GTB support toteling $30.8 million. Because urben districts heve more ANB and tend to heve lower texable veluetion, those districts received the lergest shere of GTB subsidy. School districts in Montene's seven lergest cities (with 38 percent of the ANB) received 50 percent of the GTB support. Of the 25 counties receiving $13.6 million in GTB for retirement levy equelizetion, most funding went to the six most populous counties.

Attempts to raise the FP schedules for the biennium failed.* House Bill No. 982 would have imposed $23 million in tax increases on oil, gas, and coal to pay for a 2 percent FP schedule increase. The revenue measures were amended out and sent to the Governor. House Bill No. 982 was coordinated with House Bill No. 1007, legislation containing a 5 percent permanent income tax surcharge for the University System, with 3 percent of the surcharge for public education. The Legislature was unable to override the Governor's veto of House Bill No. 1007.

As recommended by the Legislative Oversight Committee on School Funding Implementation (Oversight Committee), the funding for school transportation was divided between state and county aid.[82] The on-schedule transportation reimbursement rates were increased form 80 cents per mile to 85 cents per mile, the first change in the rates since FY 1985.** Other "HB 28 cleanup" legislation sponsored by the Oversight Committee allowed districts to exceed the caps on the growth of district GF budgets for emergencies, receipt of protested and delinquent taxes, and unanticipated increases in special education costs.[83]

A special session was called for January 1992 to address the grim news that certain revenue collections for the biennium had not materialized as predicted, and the state found itself with a $73 million hole in the previously balanced budget for the 1992-93 biennium. The anticipated shortfall for the SEA for the ensuing biennium was $47.9 to fund the FP schedules, the GTB program, the state's transportation share, and the $0.3 million appropriated for the educational telecommunications network.[84]

The January 1992 Special Session appropriated $24.1 million in state

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* Under HB 28, the term "maximum-general-fund-budget-without-a-vote", or MGFWV, was no longer used to describe the foundation and permissive schedules and the term "foundation program schedules" was reinstated.

** In the final hours of the 1991 Regular Session, the state's share of the on-schedule district transportation costs under Senate Bill No. 82 ($7.8 million) was appropriated from the SEA, rather then statutorily appropriated from the state general fund.

general fund to the SEA and approved $16.1 million in "one-time" revenue to the fund for FY 1993.[85] Despite these measures, expenditures from SEA for the FY 1993 biennium are projected to be $35.3 million more than revenue. Because of this structural imbalance between revenues and expenditures, the SEA has had an outstanding loan balance from the state general fund since November 1990, and a substantial loan balance into the 1995 biennium is predicted. Based on historical revenue growth, the SEA will need over $25 million in additional revenue even if the next legislature grants no schedule increases. School enrollment is expected to remain relatively static, but the costs of the GTB program may continue to increase. Between FY 1991 and FY 1992, the GTB obligation for the county retirement levies increased 10 percent.

Facts to Date: From FY 1981 to FY 1991, the schedules rose by 91.58 percent, while the CPI gained 73 percent and the GF budgets of districts grew by 127 percent. From FY 1990 to FY 1991, the first year of budgeting under the funding reforms, district GF budgets grew by 4.7 percent (comparison includes comprehensive insurance costs). Under the reforms, state funding sources fund 71.6 percent of district GF budgets, as compared to 55.1 percent in FY 1990.

School trust earnings (rental and leases on state lands and trust investments) contributed $48.27 million to SEA in 1981 but have decreased to $35.87 in 1991. Natural resource tax collections and U.S. mineral royalties have also declined significantly, as indicated in Appendix E.[86]

2177 AMXA
2177 AMXB

ENDNOTES

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APPENDIX A

MONTANA PUBLIC SCHOOL GENERAL FUND STRUCTURE IN FY 1991

MAXIMUM GF BUDGET	DISTRICT VOTED LEVY	REVENUE & BUDGETS FY 1991
GREATER OF: • 135% OF CURRENT YEAR'S FP AMOUNT • 104% OF PREVIOUS YEAR'S GF BUDGET	• PROPERTY TAXES • P.L. 81-874	
PERMISSIVE AMOUNT • 35% OF FOUNDATION PROGRAM AMOUNT	**PERMISSIVE LEVY** • NONLEVY REVENUE VEHICLE FEES, INTEREST, TUITION,FLAT TAX, P.L.874 CASH REAPPROPRIATED • DISTRICT MILL LEVY • STATE GTB AID IF ELIGIBLE	
TOTAL FOUNDATION PROGRAM AMOUNT • 100% OF FP SCHEDULES	**STATE EQUALIZATION** • 40 MILL LEVY — $4.2m • NET LOTTERY REVENUE • INCOME TAX (41.3%) — $115.9m • CORPORATION TAX (28.5%) — $17.8m • COAL SEVERANCE TAX — $5.7m • U.S. MINERAL ROYALTIES — $21.9m • 15% COAL TRUST INTEREST — $7. m • SCHOOL TRUST INCOME • COUNTY SURPLUS — $35.8m • DIRECT APPROPRIATIONS	
	COUNTY EQUALIZATION • 33 MILLS FOR ELEMENTARY • 22 MILLS FOR HIGH SCHOOL • OTHER REVENUE VEHICLE FEES, FEDERAL FOREST, TAYLOR GRAZING, MISC. REVENUES	

APPENDIX B

LEGISLATIVE INCREASES IN FOUNDATION PROGRAM SCHEDULES

SCHOOL FISCAL YEARS 1951 -- 1991

Legislative Session and Funding Biennium	Foundation Program Schedule Increases Over Previous Biennium	
	Elementary Schools	High Schools
1951 Legislature FY 52 & 53	No increase for biennium	No increase for biennium
1953 Legislature FY 54 & 55	9.9%, average increase[1] Amounts varied for size	10.4%, average increase Amounts varied for size
1955 Legislature FY 56 & 57	4.7%, average increase	15.3%, average increase
1957 Legislature FY 58 & 59	11.1%, average increase	9.8%, average increase
1959 Legislature FY 60 & 61	4%, average increase	4.7%, average increase
1961 Legislature FY 62 & 63	3% 3%	3% 3%
1963 Legislature FY 64 & 65	4.5%, average increase[2] (10.5%, ANB of 301+)	19.6%, average increase (29.4%, ANB of 601+)
1965 Legislature FY 66 & 67	6% 6%	6% 6%
1967 Legislature FY 68 & 69	15% 15%	15% 15%
1969 Legislature FY 70 & 71	12% 12%	14% 14%
1971 Legislature FY 72 & 73	4.10%2[3] 4.04%	4.10% 4.17%
1974 Legislature[4] FY 74 & 75	5% 7.40%	5% 6.8%
1975 Legislature FY 76 & 77	15.9% average increase[5] 12.7%	12.5% 12.7%
1977 Legislature FY 78 & 79	7% 7%	7% 7%
1979 Legislature FY 80 & 81	8% 10%	8% 10%

Legislative Session and Funding Biennium	Foundation Program Schedule Increases Over Previous Biennium	
	Elementary Schools	High Schools
1981 Legislature FY 82 & 83	18% 15%	18% 15%
1983 Legislature FY 84 & 85	4% 3%	4% 3%
1985 Legislature FY 86 & 87	4% 1% [6]	4% 1%
1987 Legislature FY 88 & 89	No increase for biennium	No increase for biennium
1989 Legislature FY 90 & 91	3% 13.9% (24.4%, ANB of 300+)[7]	3% 21.5
1991 Legislature FY 92 & 93	No increase for biennium[8]	No increase for biennium

NOTES FOR APPENDIX B

1. For FY 54 through FY 61 the percent of increase in the foundation program schedule amount varied according to the district ANB size. The average percentage increases have been computed on a weighted basis for consistency of comparison.

2. The Legislature enacted the recommendations of the School Foundation Program Study Committee of the 1961-62 interim, which created new schedules based on a study of the median costs in the districts' FY 1962 general fund budgets. The percentage increase varied according to the new district size categories, with the largest district receiving the greatest increases, as shown. The new schedules were termed the "maximum-general-fund-budget-without-a-voted-levy" (MGFWV) amount, which was divided into a minimum foundation program guarantee of 75% and a 25% permissive amount that could be triggered by district trustee action.

3. For FY 72 through FY 75, increases were based on the following dollar amounts per ANB: $14 per elementary ANB and $20.50 per high school ANB in FY 72; $16 per elementary ANB and $21.60 per high school ANB in FY 73; $19.60 per elementary ANB and $27 for High school ANB in FY 74; and $30.40 per elementary ANB and $38.40 per high school ANB in FY 75.

4. The 1973 Legislature did not act on foundation program schedule increases, but did revamp the funding structure.

5. The Legislature enacted the Office of Public Instruction's recommendation to adjust the schedules based on a study of actual general fund expenditures in FY 74 for districts in the various size categories within the schedules. The changes varied from 6% for the smallest categories to 20% for elementary and high school sizes of 101 to 300 ANB (Chapter 518, Laws of Montana, 1975).

6. The 1985 Legislature enacted 4% increases for both years of the biennium; however, the increase for FY 1987 was reduced in the 1986 June Special Session in attempts to reduce a projected state deficit.

7. House Bill No. 28, the school funding reform package of the 1989 June Special Session, increased the schedules significantly to coincide with legislative intent to disperse through the schedules an amount equal to at least 80% of the general fund and comprehensive insurance fund expenditures of all the districts in the state in FY 1988. House Bill No. 6 of that special session had boosted the FY 90 schedules by 3%.

During the special session, a comparison of FY 1988 schedule funding to actual FY 1988 district expenditures for schools with more than 300 ANB indicted greater reliance on nonequalized funding than for other size categories. The data was used to back the argument that the schedules should be increased by an additional 8.7% for this size of elementary school or district. This adjustment was directed toward 60% of the state ANB count in 73 of the state's largest elementary districts.

8. House Bill No. 982 of the 1991 Session would have increased the schedules by 2%; however, the bill's linkage to House Bill No. 1007, containing an income tax surcharge as a funding mechanism, resulted in nullification of the schedule increases upon the Legislature's failure to override the Governor's veto of that bill.

APPENDIX C

AMOUNTS AND PERCENTAGES OF REVENUE FOR SCHOOL GENERAL FUND BUDGETS (1950 - 1991)

School Fiscal Year	ANB (Pupils)	Total General Fund Budget	Public School Foundation Program	Avg. % from Foundation Program	Permissive Increase Without Vote	Voted Levy	Avg. % from Voted Levies	Avg. General Fund Dollars Per Pupil
1949-50	94,578	$25,302,000	$20,541,000	81.2%	$2,863,000	$1,898,000	7.5%	$267.53
1950-51	97,974	26,462,000	21,233,000	80.2%	3,145,000	2,084,000	7.9%	270.09
1951-52	100,287	28,567,000	21,394,000	74.9%	5,393,000	1,780,000	6.2%	284.85
1952-53	101,908	29,729,000	21,624,000	72.7%	5,453,000	2,652,000	8.9%	291.72
1953-54	106,056	32,670,000	24,268,000	74.3%	6,000,000	2,402,000	7.4%	308.04
1954-55	111,648	34,817,000	25,387,000	72.9%	6,434,000	2,996,000	8.6%	311.85
1955-56	116,150	37,725,000	27,657,000	73.3%	7,197,000	2,871,000	7.6%	324.80
1956-57	121,450	40,423,000	28,750,000	71.1%	7,418,000	4,255,000	10.5%	332.84
1957-58	126,883	44,152,000	32,402,000	73.4%	8,362,000	3,388,000	7.7%	347.97
1958-59	130,332	48,822,000	33,662,000	71.9%	8,930,000	4,230,000	9.0%	359.25
1959-60	133,818	50,414,000	35,966,000	71.3%	9,448,000	5,000,000	9.9%	378.74
1960-61	139,034	54,057,000	37,211,000	68.8%	9,688,000	7,158,000	13.2%	388.80
1961-62	144,557	58,454,000	39,582,000	67.7%	11,115,000	7,757,000	13.3%	404.37
1962-63	151,186	62,152,000	41,168,000	66.2%	11,452,000	9,532,000	15.3%	411.10
1963-64	158,089	68,263,000	48,235,000	70.7%	15,183,000	4,846,000	7.1%	431.80
1964-65	162,622	71,582,000	49,464,000	69.1%	16,045,000	6,073,000	8.5%	440.17
1965-66	167,679	77,817,000	53,900,000	69.4%	17,477,000	6,240,000	8.0%	462.89
1966-67	171,212	82,603,000	54,906,000	66.5%	18,111,000	9,588,000	11.6%	482.48
1967-68	176,241	95,192,000	69,281,000	72.8%	16,868,000	9,063,000	9.5%	540.12
1968-69	180,988	102,953,000	70,996,000	69.0%	17,514,000	14,443,000	14.0%	568.84
1969-70	184,873	117,533,000	81,639,000	69.5%	20,265,000	15,629,000	13.3%	636.44
1970-71	186,836	126,489,000	82,629,000	65.3%	20,814,000	23,246,000	18.4%	677.01
1971-72	189,733	134,156,000	86,951,000	64.8%	21,593,000	25,475,000	19.0%	707.08
1972-73	191,958	144,568,000	91,479,000	63.3%	22,814,000	30,275,000	20.9%	753.12
1973-74	195,178	152,950,000	97,468,000	63.7%	24,329,000	31,153,000	20.4%	783.64
1974-75	177,028	177,118,000	108,623,000	61.3%	27,117,000	41,317,000	23.3%	1,000.51
1975-76	174,451	206,360,000	125,814,000	61.0%	31,393,000	49,153,000	23.8%	1,182.91
1976-77	171,944	229,392,000	140,630,000	61.3%	35,110,000	53,652,000	23.4%	1,334.11
1977-78	170,117	249,339,000	150,891,000	60.5%	37,658,000	60,790,000	24.4%	1,465.69
1978-79	167,664	268,282,000	181,854,000	60.3%	40,407,000	66,021,000	24.6%	1,600.12
1979-80	163,276	287,413,000	165,673,000	57.6%	41,353,000	80,387,000	28.0%	1,760.29
1980-81	158,185	313,437,000	172,295,000	55.0%	43,048,000	98,094,000	31.3%	1,981.48
1981-82	154,331	349,496,000	197,301,000	56.5%	49,277,000	102,918,000	29.4%	2,264.59
1982-83	152,107	386,316,000	223,262,000	57.8%	55,765,000	107,289,000	27.8%	2,539.76
1983-84	150,685	410,818,000	230,359,000	56.1%	57,525,000	122,934,000	29.9%	2,726.34
1984-85	151,246	443,231,000	238,613,000	53.8%	59,630,000	144,988,000	32.7%	2,930.53
1985-86	151,558	465,039,000	246,498,000	53.0%	61,811,000	156,930,000	33.7%	3,068.39
1986-87	151,811	475,962,000	247,804,000	52.1%	61,938,000	166,222,000	34.9%	3,135.23
1987-88	150,278	472,642,000	245,161,000	51.9%	61,292,000	166,191,000	35.2%	3,145.12
1988-89	149,317	480,612,000	243,217,000	50.6%	60,791,000	176,604,000	36.7%	3,218.74
1989-90	149,090	521,813,262	253,366,471	47.8%	63,341,603	205,165,189	38.7%	3,552.33
1990-91	148,011	569,839,041*	376,157,549	45.5%	126,109,050	67,572,442	11.9%	3,848.04

Sources for columns 3, 4, 6, and 7: 1991 Edition of Montana Taxation, Montana Tax Foundation, Inc., and Office of Public Instruction.

* District comprehensive insurance costs now budgeted in general fund.

APPENDIX D

AVAILABLE REVENUE FOR STATE EQUALIZATION AID FOR THE SCHOOL FISCAL YEARS 1950 -- 1981

Fiscal Year	1/4 Income Tax	1/4 Corporation License Tax	U.S. Oil & Gas Roy.	Interest & Income	Coal Tax + Interest	Co. Basic Surplus	Gen. Fund Appropriation	Total
1949-50	$ 921,712	$ 412,029	$ 221,043	$ ---	$ ---	$ ---	$ 4,300,000	$ 5,854,784
1950-51	1,108,505	652,241	350,617	---	---	---	4,300,000	6,411,363
1951-52	1,331,598	570,898	286,172	---	---	---	4,665,000	6,853,668
1952-53	1,225,636	401,409	455,284	---	---	---	4,665,000	6,747,329
1953-54	1,267,484	413,285	502,308	---	---	---	2,900,000	5,083,077
1954-55	1,326,103	391,383	409,622	---	---	---	4,665,000	6,792,108
1955-56	1,765,919	570,034	462,883	---	---	---	4,665,000	7,463,836
1956-57	1,625,983	594,002	583,357	---	---	---	5,000,000	7,803,342
1957-58	2,149,711	594,359	766,189	---	---	---	6,400,000	9,910,259
1958-59	2,097,957	756,603	807,317	---	---	---	7,100,000	10,761,877
1959-60	2,369,409	1,174,815	885,855	---	---	---	8,094,469	12,524,548
1960-61	2,981,307	1,169,888	810,852	---	---	---	8,955,554	13,917,601
1961-62	3,039,231	1,100,245	879,550	---	---	---	8,057,374	13,076,400
1962-63	3,508,303	1,189,466	1,018,974	---	---	---	8,577,137	14,293,882
1963-64	3,874,646	1,282,453	1,003,359	---	---	---	10,000,000	15,940,458
1964-65	4,165,654	1,467,809	1,013,438	---	---	---	12,000,000	18,646,901
1965-66	5,467,467	1,637,930	1,070,409	---	---	---	13,699,646	21,875,452
1966-67	5,968,589	1,901,952	1,080,815	---	---	---	13,200,000	22,151,156
1967-68	7,393,413	1,832,176	1,111,735	---	---	---	14,711,598	25,048,922
1968-69	7,805,798	2,017,481	1,697,365	---	---	---	12,500,000	24,020,644
1969-70	9,717,712	2,383,966	1,488,710	---	---	---	17,150,000	30,740,388
1970-71	10,597,896	2,401,452	1,329,015	---	---	---	15,850,000	30,178,363
1971-72	16,553,832	2,713,959	1,278,127	---	---	---	17,575,052	38,120,970
1972-73	19,277,760	3,014,314	1,322,523	---	---	---	19,631,766	43,246,363
1973-74	19,756,093	3,934,040	1,473,475	11,808,871 **	---	349,404	30,059,000	67,180,883
1974-75	22,149,842	5,519,645	2,384,922	14,905,773	---	1,406,660	32,866,000	79,232,842
1975-76	24,380,074	5,755,028	2,243,054	15,390,972	2,203,181	3,266,531	16,879,320	70,138,160
1976-77	27,965,382	6,239,310	3,634,904	15,173,620	3,590,606	3,470,528	31,790,000	91,864,350
1977-78	30,905,200	7,309,693	4,426,414 *	14,854,923	3,159,061	4,231,991	28,820,000	93,707,282
1978-79	35,355,186	9,022,914	4,701,658	17,122,330	3,648,944	7,377,052	26,760,000	103,988,084
1979-80	33,748,825	10,413,444	5,146,239	21,882,375	5,792,922	3,696,054	24,276,875	104,954,734
1980-81	36,509,072	12,094,828	7,380,404	48,265,782	4,693,410	3,326,721	25,156,875	137,427,090

* Chapter 356, L. 1977, increased the percentage from this equalization source from 50% to 62 1/2%.

** Chapter 137, L. 1973, provided that I and I funds would become an equalization source; see Table III for previous years' I and I funds.

♦ SCHOOL EQUALIZATION ACCOUNT REVENUES ♦

	<----------CURRENT REVENUES---------->												<---------OTHER TRANSACTIONS--------->		
Fiscal Year	U.S. Mineral Royalties	Individual Income Taxes	Corporation Taxes	Coal Severance Tax	Education Trust Interest	School Trust Income	Equalization Mill Levy	Lottery[A] Profits	Coal Trust Earnings	Other Revenues	Total Current Revenues	Annual % Change	Education Trust Transfers	General Fund Transfers	Prior Year Revenues
Total	325.88%	227.91%	97.73%	79.66%	NA	109.47%	109.41%	-49.85%	NA	NA	140.38%		NA	NA	NA
Average	12.83%	10.40%	5.85%	5.00%	NA	6.36%	6.35%	-20.55%	NA	NA	7.58%		NA	NA	NA
1991	21,928,394	115,933,687[B]	17,841,428	5,752,194	-0-	35,865,505	141,865,570[C]	4,200,337	7,037,487[D]	317,760	350,742,362	37.95%	-0-	-0-	1,045
1990	20,240,644	92,787,256	18,844,917	2,579,080	713,114[E]	34,706,901	80,071,392	4,168,858	-0-	142,422[F]	254,254,583	-0.13%	14,487,765[E]	-0-	19
1989	20,727,404	84,290,457	12,964,721	9,836,668	1,160,469	32,165,382	90,011,845	2,774,692	-0-	-0-	253,931,138	-4.38%	24,650,000	-0-	-581,924
1988	26,327,798	76,494,683	10,557,529	14,215,851	3,430,171	34,078,544	92,090,176	8,375,894	-0-	-0-	265,570,646	14.42%	9,350,000[G]	-0-	3,663,451
1987	23,433,021[H]	48,669,237	7,688,518	10,104,150	9,401,931	35,529,619	97,282,942	-0-	-0-	-0-	232,109,419	4.73%	-0-	15,704,823	637,366
1986	12,629,639	43,054,033	13,236,255	4,210,861	6,652,738	37,301,053	104,535,104	-0-	-0-	-0-	221,619,683	-4.22%	-0-	4,654,304	4,636,717
1985	14,817,634	45,264,290	14,319,379	4,587,443	6,587,139	37,450,661	108,359,879	-0-	-0-	-0-	231,386,424	9.20%	-0-	15,297,669	-16,072
1984	14,948,556	42,586,587	8,026,240	4,141,172	5,107,578	36,982,835	100,100,075[I]	-0-	-0-	-0-	211,893,042	10.42%	-0-	12,260,000	-1,839,762
1983	11,543,027	37,950,067	8,099,084	4,002,249	4,581,779	36,398,297	85,743,170	-0-	-0-	3,571,967	191,889,640	0.80%	-0-	-0-	2,393,528
1982	9,693,122	35,950,822	10,247,808	4,309,342	2,376,417	47,248,048	80,532,297	-0-	-0-	-0-	190,357,856	-1.58%	-0-	-0-	-40
1981	7,380,404	36,509,072	12,094,826	3,520,751	1,172,659	48,265,782	73,744,459	-0-	-0-	4,706,781[J]	187,394,734	22.56%	-0-	14,547,153	6,180
1980	5,146,239	33,748,825	10,413,444	5,210,070	582,852	21,882,375	66,557,935	-0-	-0-	9,366,769[J]	152,906,509	4.79%	-0-	13,320,000	23,829
1979	5,148,923	35,355,186	9,022,914	3,201,679	-0-	17,122,330	67,749,417	-0-	-0-	8,311,686[J]	145,912,135		-0-	11,010,000	-0-

A) HB 28, June 1989 special session, reallocated lottery profits from teachers' retirement equalization to the SEA, effective 1991.
B) HB 28, June 1989 special session, increased the allocation of individual income tax to the SEA from 33.2 percent in 1990 to 41.3 percent in 1991.
C) HB 28, June 1989 special session, made the 10 mill district permissive levy mandatory as part of the 55 mill county levy. It also imposed an additional 40 mill state-wide levy for school equalization. (Revenues from the 10 mill district permissive levy were not recorded in SBAS prior to 1991.)
D) HB 28, June 1989 special session, allocated 15% of the permanent coal trust earnings to the equalization account.
E) HB 28, June 1989 special session, abolished the education coal trust and appropriated any funds remaining in the education trust as of June 30, 1990 to the equalization account.
F) HB 28, June 1989 special session, allowed the SEA to retain its investment earnings.
G) HB 904, 1987 session, appropriated $34.0 million from the education trust to the equalization account.
H) Until 1987, U.S. Royalties revenues were allocated to highways and the SEA. Beginning in 1987, all U.S. Royalties were allocated to the SEA.
I) SB 94, 1983 session, increased the school equalization levy from 40 to 45 mills, effective 1984.
J) Federal revenue sharing was transferred to the equalization account from 1979 through 1982.

Source: "The Montana Historical Revenue & Expenditure Report" A Report Prepared for the Legislative Finance Committee by Carroll South, April 7, 1992

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